Papers Please: Immigration, Enforcement, and Remmitances

Jose A. Rojas-Fallas
Portland State University

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Abstract

This research aims to analyze and present the economic reaction visible in immigrants, unauthorized or not, in Arizona during the period in which SB 1070, a law that allowed state police officers to stop and ask for proof of residency from anyone that the officers deemed to “have the appearance of an immigrant”. To make the analysis on how this may have had economic implications in immigrants, an attempt to answer how remittance activity changes in immigrant communities in the context of a change in law enforcement jurisdiction, as seen by the SB. 1070 law enacted in Arizona is made. Immigrants participate almost exclusively in local economies, be this because of a function of relatedness or a feeling of safety. Policy and laws of this sort have the potential to reduce immigrant consumption and perhaps even out-migrate from fear of the increasingly hostile surroundings they find themselves in. If they are to reduce personal spending, local economies will see a downturn, resulting in marginal or stagnated growth. As well as economic changes, institutional mistrust may also see an increase, creating a void of use in institutions, signifying a misallocation, and waste of resources. This process of creating anti-immigratory policies, although lawful, and effective in their goal, have unintended consequences with social spillover generating harm to the general social welfare pool.

I. Introduction

Loss of jobs and stagnant wages have been historically attributed to immigrant influxes and the low cost labor they provide. We must also account for the existent language barrier between Americans and Mexican immigrants. This inability to immediately communicate imposes limits to interactions between both sides. This has created resentment towards immigrants throughout the nation, bringing about tense relationships in the general populace, without any true resolution to be expected soon. This has led to
various policies and tactics that have targeted immigrant populations such as the Legal Arizona Workers Act (LAWA) and the Support Our Law Enforcement and Safe Neighborhoods Act (SB. 1070). These have had negative psychological effects on immigrants, and have extended to economic negative effects through the process of outmigration.

With increasing difficulty in obtaining legal work permits or visas by Mexican immigrants through their own government (Provine, 2013), those that find themselves in an unfortunately desperate situation take on incredible risks, such as assailants, dangerous desert weather, American vigilantes and ultimately Border Patrol agents and their historic record of misconduct and violence (Holmes, 2013). These migrating agents are seeking relatively better opportunities in foreign lands; chasing the fleeting American dream. Stricter limitations to immigrant workers, having as many as 333 immigration-related acts of legislations on the state-level, are rationalized with discourse accusing immigrants of being a driving factor in stagnant wages for natives or placing a higher financial burden on the host country. The present research will dive in-depth into SB. 1070, otherwise known as “Support Our Law Enforcement and Safe Neighborhoods Act” of 2010. This bill was signed into law on April 23 of that same year, and it attempted to deter illegal immigrants from residing in Arizona through an expansion of state law enforcement officers’ ability to enforce federal immigration law. In essence, this required state law enforcement officers to make an unbiased, fair and justifiable assessment as to whether a suspect “appears” to be residing illegally in the state; creating much room for xenophobic and racial discrimination to take place.

To analyze this particular situation, we must understand the immigrant background. The select group under this research’s analysis, Mexican immigrants, can be described in broad strokes through various identifiers: They are typically of unskilled labor occupations, medium to low completion levels of education, and within the prime working age. These characteristics are further detailed later on in this paper. Issues on behalf of natives arise with these individuals when labor opportunities and wage levels are considered. Economic theory lets us know that when there is an excess supply of workers (immigrants in
this case), wages are reduced to match supply and achieve an equilibrium between labor demand and labor supply (Ehrenberg and Smith, 2012; Orrenius and Zavodny, 2005).

Consequences of immigration and immigrant labor participation is of particular importance in a border-state like Arizona. Being a border state, the transition of immigrants is more pronounced than other states, and it being a border with Mexico, immigrants are typically of Mexican background, either legal or illegal immigrants. With a total population of roughly 7 million, Latinos make up 30% of that figure, and roughly 88% of those Latinos are of Mexican descent. This brings the estimated amount of Mexican immigrants in Arizona close to 1.85 million. This high percentage allows for significant consequences to take place when reacting to policies that target immigrants. And in a state like Arizona, with an infamous reputation for battling against immigrant rights, this is of high significance to an analysis of behavioral reaction to policies of this sort. Previous controversial policies and laws include the Legal Arizona Workers Act of 2008, which sought to deter unauthorized labor on behalf of immigrants by mandating employers to verify the identity and legal status of potential employees. This had visible negative effects on behavior towards unauthorized labor, but also saw an equal impact on behavior towards authorized labor by legally resident immigrants. This further highlights how policies of this nature have non-accounted for consequences towards non-targets, which is something that is rarely considered in the process of creating and discussing targeted legislation.

This research’s period of interest is a particular one. It sets its aim beginning 2006, or pre-Great Recession, and seeks to end its data analysis in 2014. The reason for these specific years is to be explained later on, with the main reasoning coming from economic theory; negative shocks and reactions to them. The U.S. economy prior to 2008 was seeing positive behavior, expanding and growing, until the housing-bubble popped. This negative shock was on levels not seen in recent history, with allusions of comparison to the Great Depression of 1929. This researcher believes that this shock is of great importance because we are able to observe a true negative shock, with great implications to labor opportunities that are typically characterized to be labored with unauthorized workers; manual labor and “perishable” jobs. Arizona was
slow to bounce from the 2008 crash, and economic downturn theory proved to be right; blaming of immigrants for loss of opportunity and a weak economy. A claim that is as much irrational, as it is false. With the law under scrutiny, SB. 1070, being signed in 2010, and later viewed on legal grounds by the Supreme Court in 2012, the time period mentioned above seems adequate to show any economic behavioral change caused by this law.

This change in behavior on behalf of the state, has led to the following inquiry: How does remittance activity change in immigrant communities, in the context of a change in local law enforcement jurisdiction, as seen with SB.1070? To answer this inquiry, we must look at several key elements that are closely related. The first, remittances and their significance. Secondly, the perception of immigration maintained by natives of the host country; Americans in Arizona in our specific circumstance. Lastly, I believe it most important to account for the controversial history on immigration that has given the state of Arizona the status of trailblazer for policy like SB. 1070 and LAWA before that.

II. Literature Review

In recent decades, remittance activity has received substantial attention from the economic community, and have labeled it as a possible aid towards development in receiving countries. Existing literature has provided us with several analyses of how remittances affect recipients, other than just an additional income. Some research has provided an analysis of, and how, remittances may promote financial development in a recipient country. By examining the link between remittances and deposits, credit provided by the local banking sector, a positive and significant link between remittances and development in the financial sector was found. This is at the aggregate national level, so it speaks to development on a national level (Aggarwal, Demirgüç-Kunt, and Pería 2011). These benefits have also been found on a household level (Ambrosius 2016), through usage of household data in Mexico, and self-reported usage and knowledge of banking opportunities by remittance-receiving households, remittances improving the use of banking services was shown. These services are basic savings accounts and credit loans, which in economic developmental terms, are vital towards progress. But not all is positive. The possibility that
remittances have a deteriorating effect on institutions of the receiving country has been explored. Abdih et al. (2012) tested if remittance flows have the potential to create adverse effects on the quality of institutions in countries receiving these funds. The private characteristic of remittance inflows indicates that they are not directly taxed, and grants a private benefit (to the recipient household). Inflows of private income (remittances) allow for households to replace public services, such as healthcare or education, with private equivalents. This movement away from public institutions may hamper quality, and thus, economic growth through the public sector. Any increase in household income is beneficial to that household, and accumulative increases in income on the national-level have the potential to aid development through investments and savings by the private sector. The flipside is seen through the substitution of public goods with those private ones of equal or better quality. The consensus appears to be that it is a net benefit for recipients, with possible negative side effects that must be explored further. To understand why this specific economic process might pose a negative connotation in the host country, it is important to explore the institutional prejudice experienced by the host’s themselves.

Studies as to why economic uncertainty and hardships being experienced, encourage native citizens to shift blame to that foreign and different have been undertaken, with emphasis on immigration law reforms. Speaking towards the economic uncertainty heuristic; the rise of opposition towards immigrants and immigration through an evaluation of influence from personally held opinions, starting with positive and negative stereotypes that are held of groups, and then attitudes towards immigration policy was conducted. It was found that negative stereotypes of Hispanics are highly associated with desire for a decrease in immigration. This is explained as an association with the Hispanic demographic to immigration-blaming produced by economic uncertainty. Prejudice and economic circumstances are grand indicators of attitudes towards immigration (Burns and Gimpel 2000). Characterized as an institutional failure, the federal enforcement of border laws comes with a significant racial-undertone, as well as an economic facade. In Arizona specifically, Latino immigrants have experienced discrimination based on racial and prejudice factors historically. An explanation of the systematic error in pursuing enforcement of
immigration law through appearance-based criteria is provided as a failure of historical and generational inheritance (Provine 2013).

Perception of immigration and immigrants is of great importance to remittance activities. Freund and Spatafora (2008) tell us that the most important determinants in remittance magnitudes are informality, transaction costs, and stock of immigrants in the region. Informality is used to illustrate the upward trend of total remittance magnitudes in recent decades, explained by the preference of formal means and institutions, choosing to move away from informal channels. Transaction costs are important when talking about worldwide remittances, but the relative low-cost of remittances intended for Mexico make this a negligible factor in the current research. The stock of immigrants’ criteria is the most crucial when talking about immigration, these policies seek to deter and decrease any further immigrants from settling in their state.

The above mentioned laws have sought to deter immigration through employment opportunities and restricting movement of immigrants. Research guided towards labor market effects has shown that Mexican migrants have suffered from a negatively shifting perception of the immigration process. Through an analysis of wages shifts and employer treatment, as of the 21st Century, employers’ have begun treating Mexican migrants with the same precaution, and disdain, regardless of legal status. This in part is explained by the increase in audits and raids that cause employers to become more risk averse when hiring immigrants. Legal Mexican immigrants have begun to suffer from prejudice towards unauthorized immigrant workers (Donato and Sisk, 2012).

On a more detailed analysis, Ellis et al. (2014) expand on the out-migration factor of policies of this sort, giving an in-depth focus to the Legal Arizona workers Act (LAWA) in 2008. Where outmigration appears to be the only alternative for non-citizen Hispanic immigrants in Arizona.. By conducting an analytical comparison of out-migration patterns for Arizona, Nevada, California and Florida; comparable states, they show that out-migration of foreign-born Latino non-citizens was higher each year in Arizona than these “control” states. The group most vulnerable to the effects on the labor market produced by
LAWA - non-citizen foreign-born Latinos - abandoned Arizona at higher rates than other demographic groups.

Further analyzing specific policy, Hoekstra and Orozco-Aleman (2017) present us with monthly observations of the consequences caused by SB. 1070. In where the period between March 2010 and July 2010, saw a significant decrease in immigrants entering Arizona. Not accidentally, this period corresponds with when SB. 1070 was signed and set to go into effect on July 29, 2010. These periods help to paint the behavioral response picture of what occurred in response to SB. 1070.

With all relevant previous literature analyzed, I find that there is a gap in the direct connection between remittance activity and policies like SB. 1070, which target immigrants. The previous literature does an exceptional job at making clear what effects remittances have on a receiving household and a developing economy. Tied to this is the general immigration prejudice experienced by immigrants in a host country, such as Mexican immigrants in Arizona. No direct tie has been made, to the knowledge of this researcher, of the effects produced by SB.1070 on remittance behavior, only research focused on out-migration behavior has been conducted. I seek to conduct a theoretical-analysis of the effects on remittances caused by SB. 1070, focusing on interpretation of previous relevant literature and relying on economic theory to explain the observed adverse effects. There will be little to no reliance on data manipulation, as this has been done by the reviewed literature pertaining to migration patterns when experiencing a shock which the likes of these laws cause. I do not seek to determine the reactivness or magnitude with which remittances are affected, but rather show, through analytical theory, that such a thing does occur and is not accounted for.

III. Theory

Immigrants possess several characteristics that can be attributed to their decision to migrate with confidence. The most important ones being age, education, distance from destination, and family migration.
Age is the primary and most important factor; the younger the individual, the longer their initial investment has time to mature and increase. It is also vital for this study to acknowledge the existence of a prime working age (16-45). This age overlaps with creation of households and obtaining independents that will increase the likelihood to remit, if traveling alone. Education is the biggest determinant of who will mobilize within an age group. Obtainment of employment is largely determined by the individual’s educational background. Distance helps to signal the initial costs of migrating. This is important because we see a negative relationship between costs and flow of immigrants. The psychological cost of change also rises with distance. Family migration is the most relevant factor in our discussion. The decision to move is taken only if the family will experience a net increase in benefits and total earnings. If the head of the household is to migrate, they will only do so if the potential gains will benefit the rest of the household even in their absence. These benefits in absence come in the form of remittances (Ehrenberg & Smith, 2012).

When speaking on established economic theory, we find our focus directed towards several key insights of thought on immigration and labor. I shall begin with the theory as to why immigrants decide to migrate. Human capital theory views mobility as an investment, one which sees costs being stomached in the early periods in expectation of greater returns over time. Mobility is paramount to human capital theory because it predicts that migration will flow from areas of relatively low earnings and possibilities to areas in where opportunities are superior (relative to the current subjective context). The positive or negative status of these opportunities carry a personal bias and the judgment is based largely on economic factors. These factors live both in the current period (the cost of moving), and future periods (perceived gains) (Ehrenberg & Smith, 2012).

When faced with uncertainty and risk; forced removal, or deportation, these fears stem from perceived migratory-status driven discrimination. This distress has the potential to demotivate even legal permanent residents. This happens because there may be unauthorized immigrants that belong to the legal residents’ household. If we are to see this discrimination as a negative shock affecting our economic agents,
then economic theory tells us that we have a more than decent probability at seeing a decrease in economic activity on behalf of all involved.

Authorized immigrants have begun to feel the effects of prejudice on behalf of native citizens. This comes hand-in-hand with the resentment harbored towards unauthorized immigrants, and the labor they provide. So much so, that legal Mexican residents are being treated by employers as if their immigration status was not of legal standard. This has the potential to bring about unforeseen economic consequences; legal residents are experiencing negative shocks to their socio-economic situation. (Donato and Sisk, 2012). The internal outmigration (movement from one state to another) rate for foreign-born, noncitizen Latinos saw an increase during this period (Ellis et al., 2014). This group can be analyzed as a proxy because it is the group most likely to account for unauthorized immigrants. We can further detail this group if we are to specify for age (16-46) and education (high school completion or less) as done by Bohn, Lofstrom, and Raphael (2014). If we are to state that the magnitude of remittances depends on the stock of immigrants as done by Freund and Spatafor (2008), then we can look at immigration policy that affects the currently observed economic activity, remittances, as a factor of internal outmigration. What we are analyzing is a policy created with an intended target in mind; unauthorized immigrants. But the crux of this research question is to show that there are unaccounted side effects to legal foreign-born noncitizen Latinos. I do believe that federal border laws should be enforced, but this method does not appear to be the most economically sound way to address the issue at hand. This anti-immigration rhetoric is partly fueled by a pervasive thought that vacated job opportunities will go to native citizens, something not observed in any previous study (Ehrenberg & Smith, 2012).

We also have to account for difficulties in obtaining legal work permits or visas. This is exacerbated by difficulties experienced on the other side of the border. Obtaining these legal documents requires for the immigrant to go through extremely lengthy waiting periods in Mexico. This makes a difficult situation even tougher, as immigrants seeking to migrate are doing so because of difficult times in their country of origin (Provine, 2013).
IV. Discussion

With an overview of relevant economic theory, and with the addition of previous literature pertaining to the topic at hand, we can confidently claim that policies of this sort impact remittance behavior negatively. Through out-migration figures of non-citizen/foreign-born Hispanic immigrants in Arizona, the magnitude of remittances will decrease. Adding to this is the psychological costs and risk-averse behavior being adopted by those deciding to remain in the state, even if their legal status is fit to do so.

It would seem that foreign born Hispanic immigrants located in Arizona are not held to contemporary economic thought and theory of labor. There is no compensating differentials in wages for immigrants, evidenced by the shift in behavior from employers towards Mexican labor. Given our focus of a specific demographic cohort; those who would be more likely to be economic immigrants who participate in the remittance market, wages are not truly compensated for the type of labor they are most likely to engage in. Rather, there is a negative premium on the wage of an unauthorized immigrant, based solely on legal status. This negative premium comes into play for foreign born Hispanic immigrants that are residing in Arizona in a legal manner. As mentioned before, employers have shifted towards practicing precautionary employment of Mexican labor, regardless of legal status. This has a significant implication for wages and income on behalf of immigrants likely to remit. As noted before, the stock of immigrants is a significant determinant of remittance magnitude, the same can be said of income and household remittances. It should come off as common sense that remittances do not equal 100% of income; those remitting must also purchase food, pay rent, invest in transportation and participate in many things we all do regularly, no matter how frugal their needs may be. Through analyzing data provided by the economic summary of Phoenix (U.S. BLS, Consumer Expenditure Survey), we can confidently claim that roughly 18% of annual income is left for “other” economic activity. If we are to assume that everyone shares the same basic needs (i.e. food, transportation, healthcare, etc.) then immigrants are left with 18% of their income to remit; not to claim that it is the whole 18% being remitted. All of this is leads to the conclusion
that any decrease, or “short-changing” of wages for Hispanic immigrants has a direct impact on household-remittance magnitude.

Although not terribly relevant to the current research, employers have also violated some economic theory, caused by SB. 1070 and bills similar to it. It is necessary to say that SB. 1070 has caused mostly psychological problems and only relatively minor economic ones. This is explained by the high effectiveness of the Legal American Workers Act of 2008 in limiting unauthorized labor in Arizona, as well as authorized immigrant labor. The theory being disturbed is that of profit motive. In where employers care little for practicing discrimination, and focusing solely on profits. However we can say that those employers not engaging in discriminatory practices receive an advantage over their counterparts (Cowen & Tabarrok, 2011).

V. Conclusion

Border laws and federal immigration laws are enforced and mandated for national security reasons. The form in which they are enforced on the other hand, is of concern. “The Support Our Law Enforcement and Safe Neighborhoods Act” or SB.1070 of Arizona, created a tense atmosphere not only in the state, but nationwide. The political trend of anti-immigration seems to surface cyclically, being activated by economic downturn.

Through the previous analysis of established and relevant literature, we know that out-migration increased during the months in which SB.1070 was to go into effect (Hoekstra and Orozco-Aleman, 2017). And showed diminishing increases immediately afterwards. If I am to follow the insight provided by Freud and Spatafora (2008), this increased out-migration signals relative decrease in remittances. We saw the same effects when the Legal American Workers Act went into law 2 years prior. This occurrence, created by very similar laws, signals to us that they are effective in their duty; determent of immigrant migration and participation in Arizona labor markets. They also carry unintended consequences, which have not been considered, or at worst, intentionally overlooked by policy makers. We also catch a glimpse of what these
Intended consequences are, remittances decrease, and this is known through the sheer logic of there being fewer foreign born Hispanics in the state of Arizona; our demographic group of interest. These “missing” economic agents cause an immediate deficit in local economies. These pushed out immigrants are not replaced by incoming native citizens. Rather, a void is created. This does not happen overnight of course, but the unattractiveness radiating from a legislative decision as this, creates a deficit in economic activity. Lost jobs are not flipped over to native citizens, either by lack of labor supply or by simple turnover lag periods.

In this scenario, I believe that everyone loses. Be it economically or any other of the human psychological factors we carry with us every day. This negative social impact does not end with unauthorized immigrants.

Legal immigrants, authorized to work, also suffer from these laws. They are not the intended target of this policy, but their innate relatedness and similarities causes them to be targeted regardless. More importantly, these legal residents are more likely to continue participation in the state, and this loss of confidence in legal institutions will have negative impacts on behavior. These established, legal residents are more likely to also be financially secure. Signaling that their economic activity would be more constant, something that would be greatly affected by a negative shock, such as would be produced by tensions raised with SB. 1070 going into law.
**Works Referenced**


